



Section 1.4

Activity 1.4.1

1.
 - a. A socially responsible business is one whose strategic objectives, decision-making and operations include the welfare of all its stakeholders.
 - b. Maximising profits is where the business makes the highest possible profits from its operations in a given time period.
2. The interests of the following stakeholders might be:
 - Shareholders – profits and dividends
 - Banks and other creditors – security of loans made
 - Employees – job security.
3. The impact of closure by KL Kepong of one of its palm oil plantations on stakeholders might be:
 - Employees – lose their jobs
 - Suppliers – lose sales to a customer
 - Government – lose tax revenue.
4. Expansion of the palm oil industry may lead to the following conflicts between stakeholders as these groups benefit:
 - Employees – job opportunities
 - Shareholders – higher profits and dividends
 - Suppliers – higher sales and profits
 - Government – greater tax revenuebut these groups might lose:
 - Local residents – disruption and displacement
 - Competitors – falling sales and profits
 - Government – cost of dealing with pollution
 - Employees – exploited by low wages.



Activity 1.4.2

1. The positive and negative effects on two other stakeholder groups of the following decisions might be:

Expansion of the business –

- Government: more tax revenue but cost of extra traffic management
- Banks: more profit from loans but increased risk of default.

Takeover –

- Government: more tax revenue but regulation of the takeover
- Banks: more profit from financing the takeover but risk of default if the takeover goes wrong.

New methods –

- Government: more tax revenue but rise in unemployment might increase unemployment benefit costs
- Banks: profits from financing the IT development but risk of default if the development goes wrong.

2. Situations where stakeholders get mutual benefits in an organisation:

- When an organisation distributes the benefits to all stakeholders. This is dependent on the way the business is managed, such as if sales and profits rise and these benefits are distributed to employees, shareholders and managers.
- The benefits may not be mutual if the management of the organisation does not distribute the benefits equally in the organization – for example, where senior managers reward themselves excessively or profits go solely to shareholders.

Activity 1.4.3

1. Two internal stakeholder groups that might benefit from rising sales and profits could be:

- Employees – higher pay and greater job security
- Shareholders – higher dividends and rising share price.

Two external stakeholders that might benefit from rising sales and profits could be:

- Banks – higher profits from more lending and greater security of existing loans
- Government – more tax revenue.

2. Stakeholders that might gain mutual benefit if sales and profits are rising include:

- Employees – higher pay and greater job security
- Shareholders – higher dividends and rising share price.

However, if a business decides to cut its costs there may be a conflict if:



- Employees see incomes fall and there are redundancies
- Shareholders see profits and share prices rise.

Activity 1.4.4

1. The two airlines seem more focused on shareholder interests because of:
 - Increased focus on profits
 - Closure of small regional airports
 - Cost cutting through redundancies.
2. It might be difficult for the merging group to meet their responsibilities to all stakeholder groups because:
 - Shareholders want to see profits and the share price rise
 - Consumers want lower fares
 - The local community want to see their service continue
 - Employees want to keep their jobs.
3. The merger may not be as profitable as expected if:
 - The redundancy costs are very high
 - Consumers are put off the business through bad publicity
 - The government puts costly regulations on the airline.
4. The merged business may meet some of its responsibilities to the stakeholder groups worst affected by:
 - Paying generous redundancy, although this increases the cost of the takeover
 - Restricting the flights it expects to cut, but this means flying unprofitable routes
 - Employ staff from unprofitable routes on new routes, but this may mean that labour costs are higher.

Exam practice question

1. Internal stakeholders are **within** the business and include:
 - Employees of GCM
 - Managers of GCM.

External stakeholders are **outside** the business and include:

- Asian Development Bank
- World Development Movement.



2. Two stakeholder groups that might benefit from the mine project are:
 - Employees – higher pay and greater job security
 - Shareholders – higher dividends and rising share price.
3. Two stakeholders that might adversely affected by the mine project are:
 - Local residents – disruption and displacement
 - Employees – exploited by low wages and dangerous working conditions.
4. GCM might be able to reduce the impact of the disadvantages created for the stakeholder groups by the mine by:
 - Putting in place effective plans for the environmental problems caused by the mine
 - Relocating/housing displaced people
 - Re-investing profits in local community projects
 - Paying fair wages to mine employees
 - Providing good working conditions for employees in the mine.

These measures may increase GCM's costs and reduce its profits.

Key Concept Question

Culture might influence different stakeholder groups in the following ways:

- Employees – the hours people work
- Managers – how they relate to subordinates
- Shareholders – their attitude to risk
- Banks and creditors – the terms of their loans
- Customers – their buying habits.

Ethics might influence different stakeholder groups in the following ways:

- Employees – their attitude to unethical work
- Managers – whether they manage in an ethical way
- Shareholders – their reaction to the ethical direction of the organisation
- Banks and creditors – their ethical approach to making loans
- Customers – whether products will be produced unethically.